

Economic and Revenue Forecast

Presented to
Local Government Partnership Meeting

Eric Swenson
Senior Economist

September 29, 2010
Tumwater, Washington



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- The economic outlook has weakened since June
 - The recovery is expected to be painfully slow
 - Historical data has been revised downward
 - Risk of double-dip is higher, but unlikely
- Mostly due to the weaker economic outlook, revenue collections for the current and next biennia have been reduced by a total of \$1.44 billion



The worst recession since WW II ended in June 2009

Recession	Peak-to-trough decline		Recession Duration
	Real GDP	Employment	
	<i>percent</i>	<i>percent</i>	<i>months</i>
1948-49	1.6	5.0	11
1953-54	2.5	3.4	10
1957-58	3.1	4.2	8
1960-61	0.5	2.3	10
1969-70	0.2	1.2	11
1973-75	3.2	1.9	16
1980	2.2	2.3	6
1981-82	2.6	3.1	16
1990-91	1.4	1.4	8
2001	0.7	1.7	8
Average	1.8	2.6	10
2007-09	4.1	6.1	18

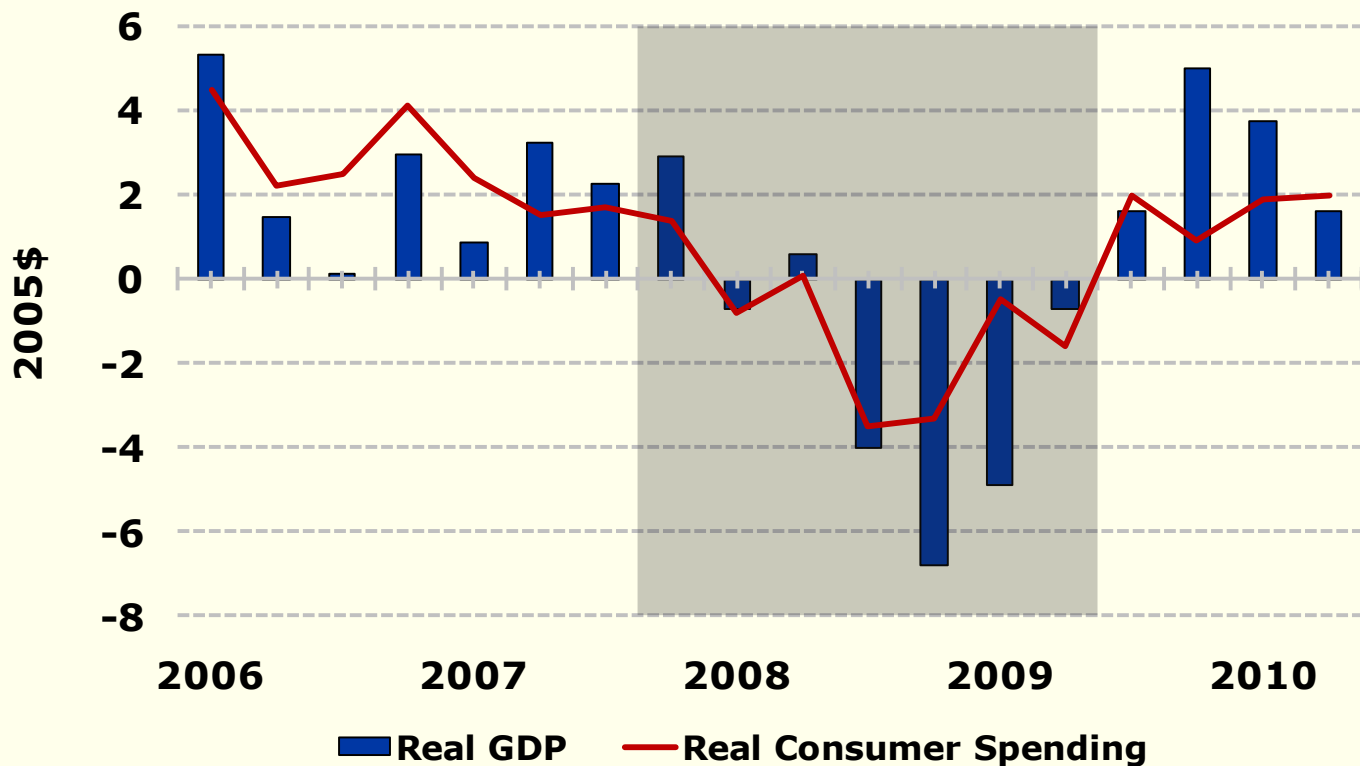
Source: NBER, ERFC

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



GDP growth took off in 2009Q4 and 2010Q1 but then slowed

Percent growth, SAAR



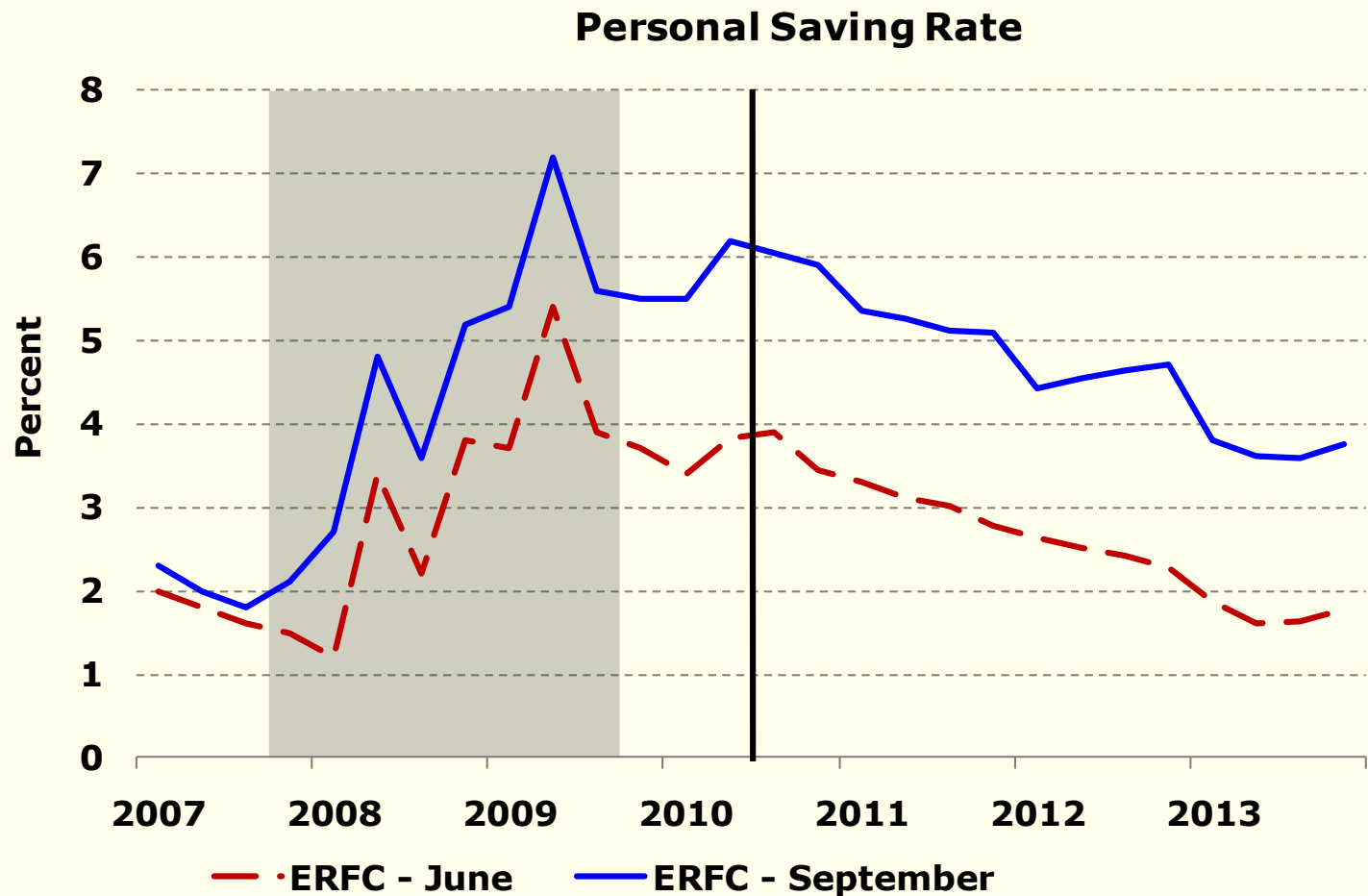
Source: BEA, data through 2010 Q2

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



The historical savings rate was revised up sharply, affecting our forecast

The saving rate for 2010Q1 was revised from 3.1% of disposable income to 5.5%.



Source: ERFC September 2010 forecast; actual through 2010 Q2

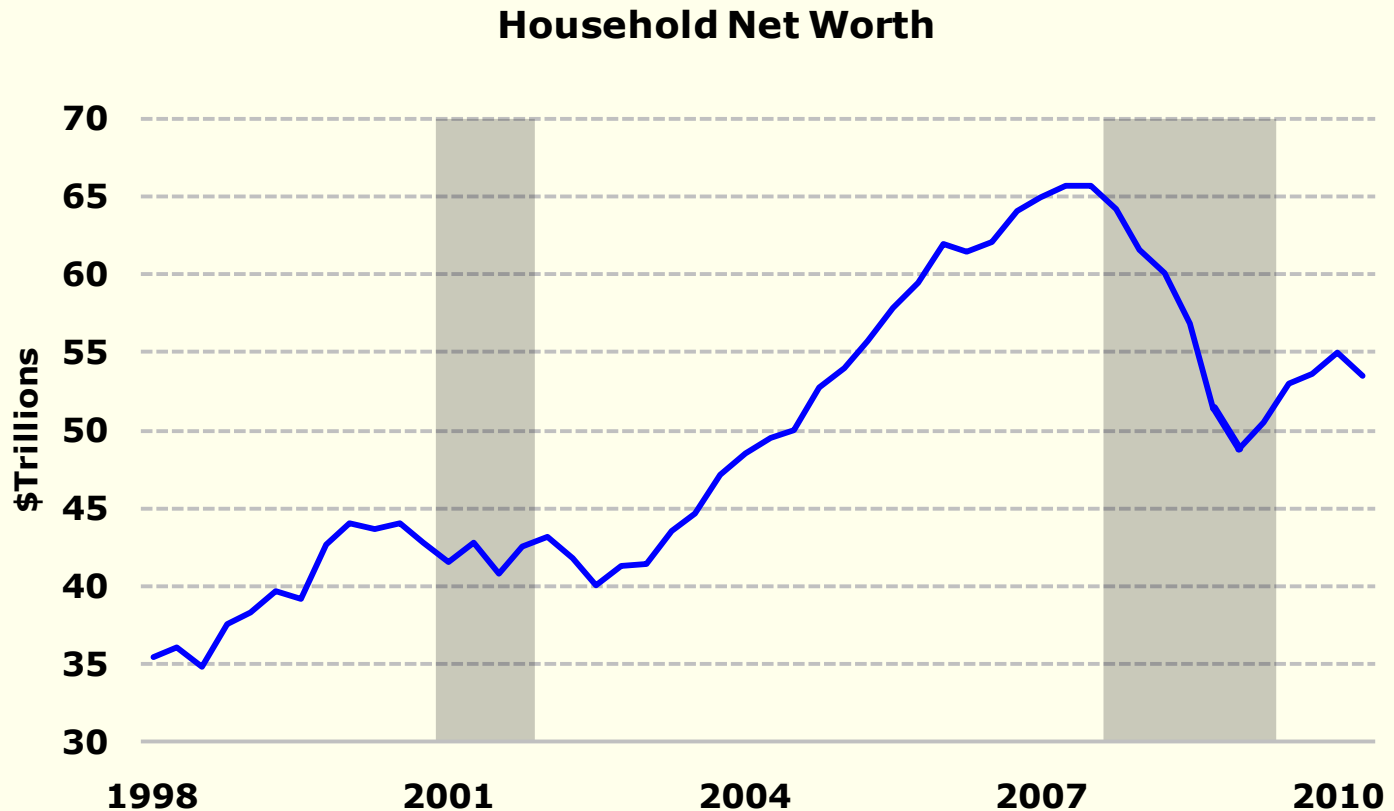
WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Recovery in household net worth stalled in 2010Q2

\$18 trillion of wealth was lost in this recession

\$6 trillion has been recovered so far



Source: Federal Reserve; data through 2010 Q2

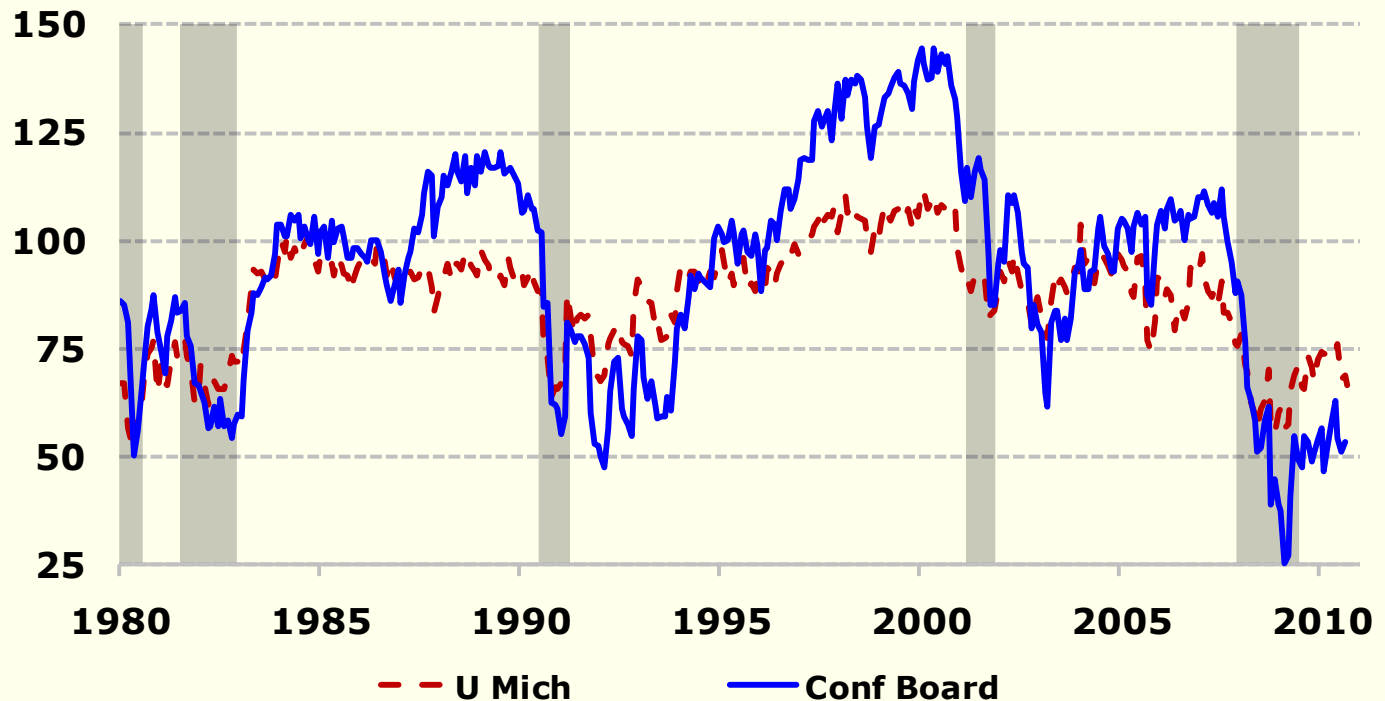


Consumer confidence remains uncertain

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



Source: University of Michigan; Conference Board, data through September 2010

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Private sector job growth in WA mirrors the national pattern – weak and hesitant

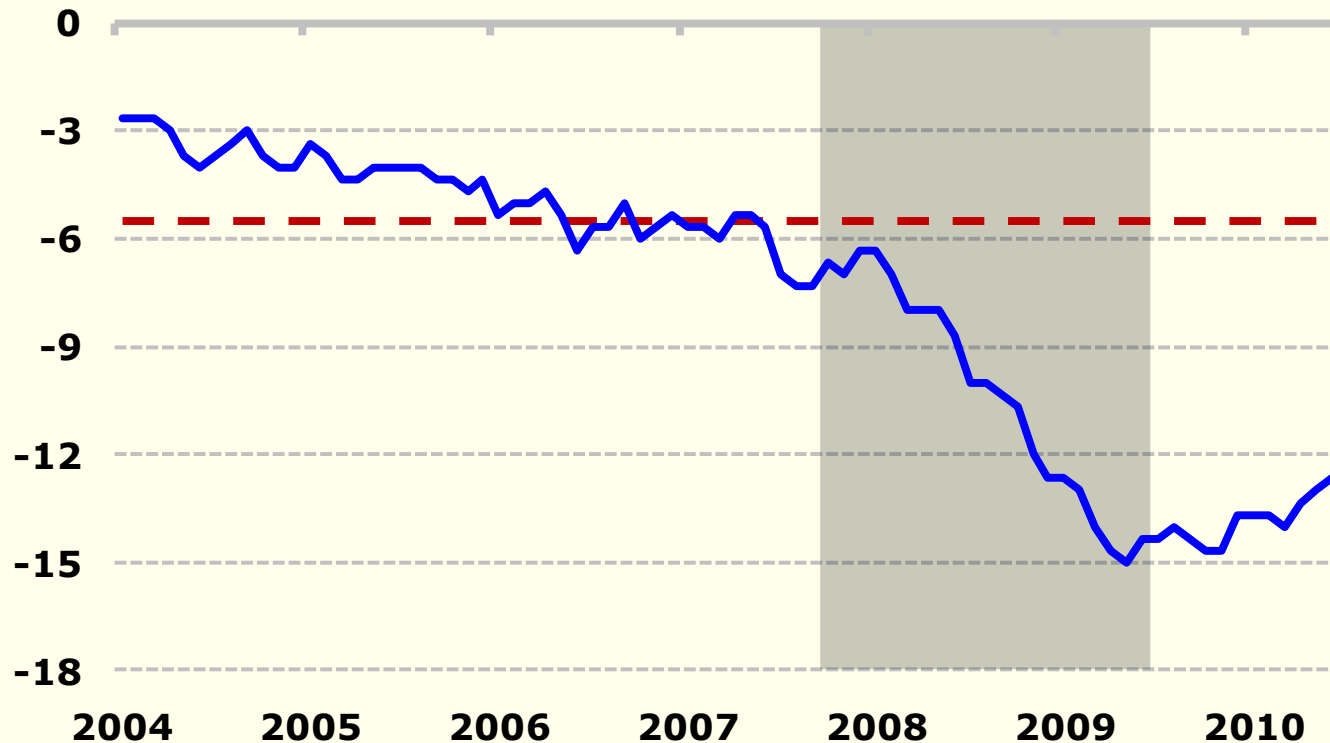


Source: WA ESD, ERFC; data through August 2010



Credit conditions for small business are improving, but remain tight

**Availability of Loans
Net Percent ("Easier" minus "Harder"), 3mma**



Source: National Federation of Independent Business; data through August 2010

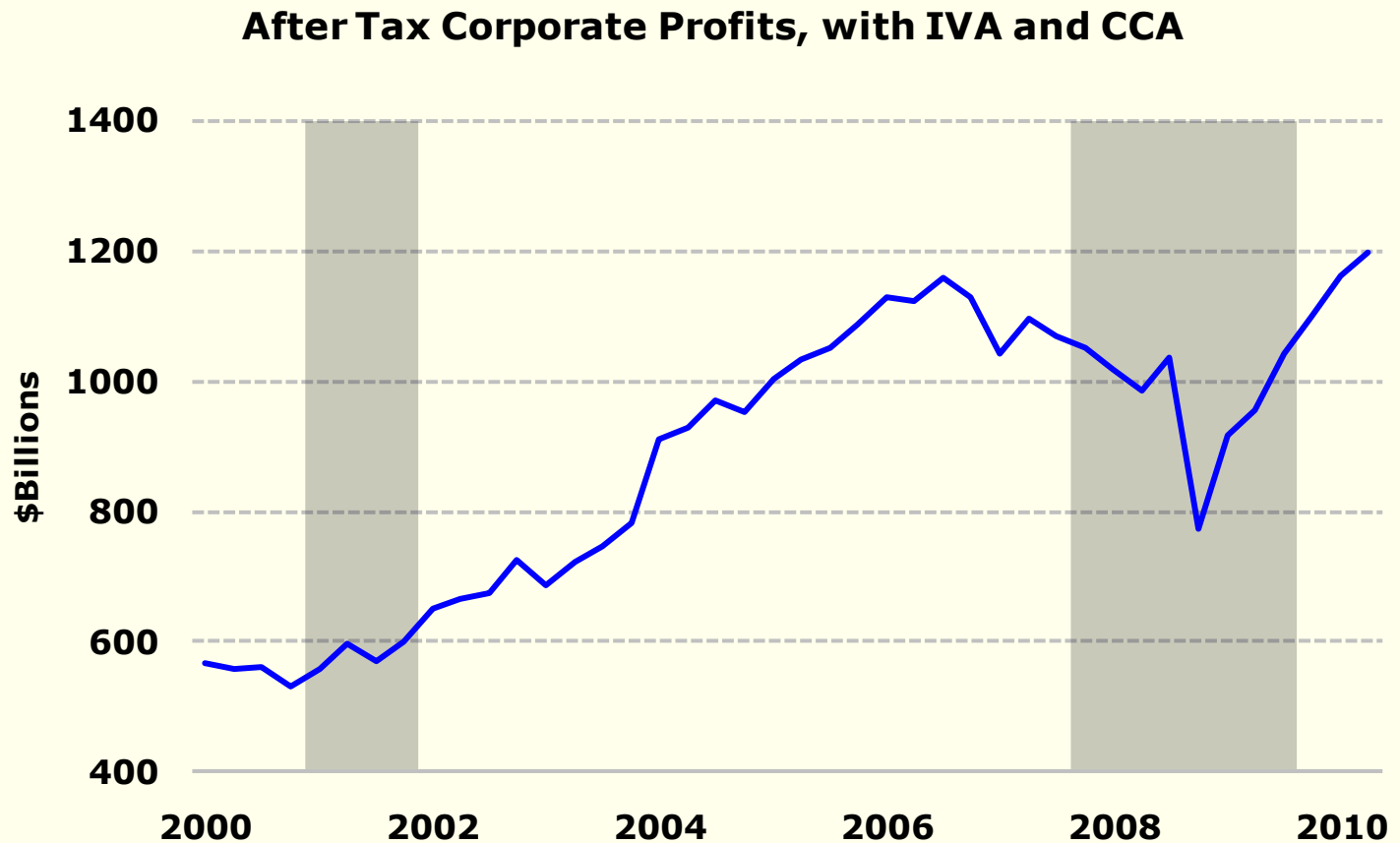


Corporate profits are back up above pre-recession levels

IVA:
Inventory
valuation
adjustment

CCA:
Capital
consumption
Adjustment

With IVA &
CCA, implies
profits from
current
production



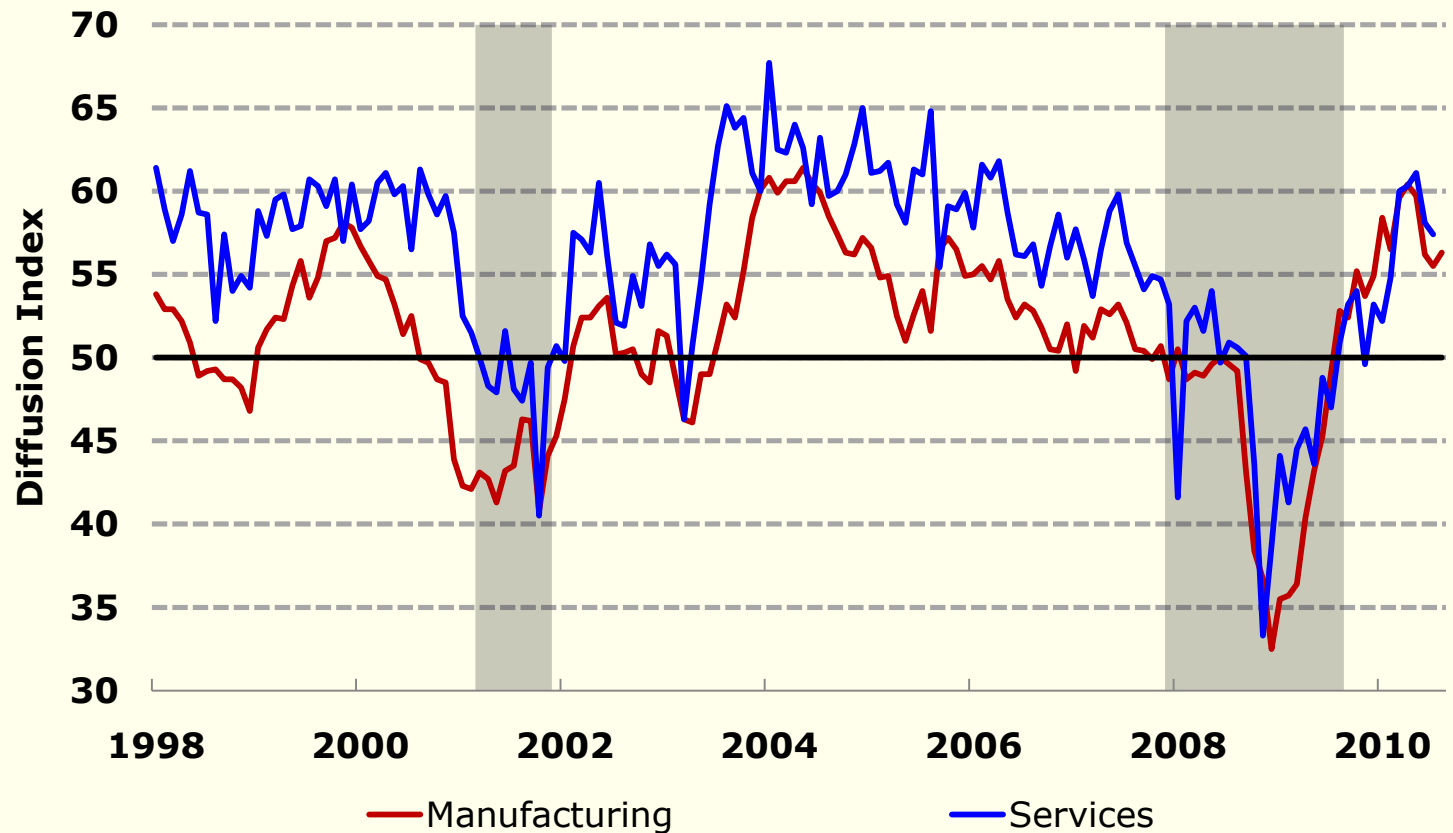
Source: BEA; data through 2010 Q2

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



ISM indices for both services and manufacturing indicate moderating growth

An index greater than 50, implies growth



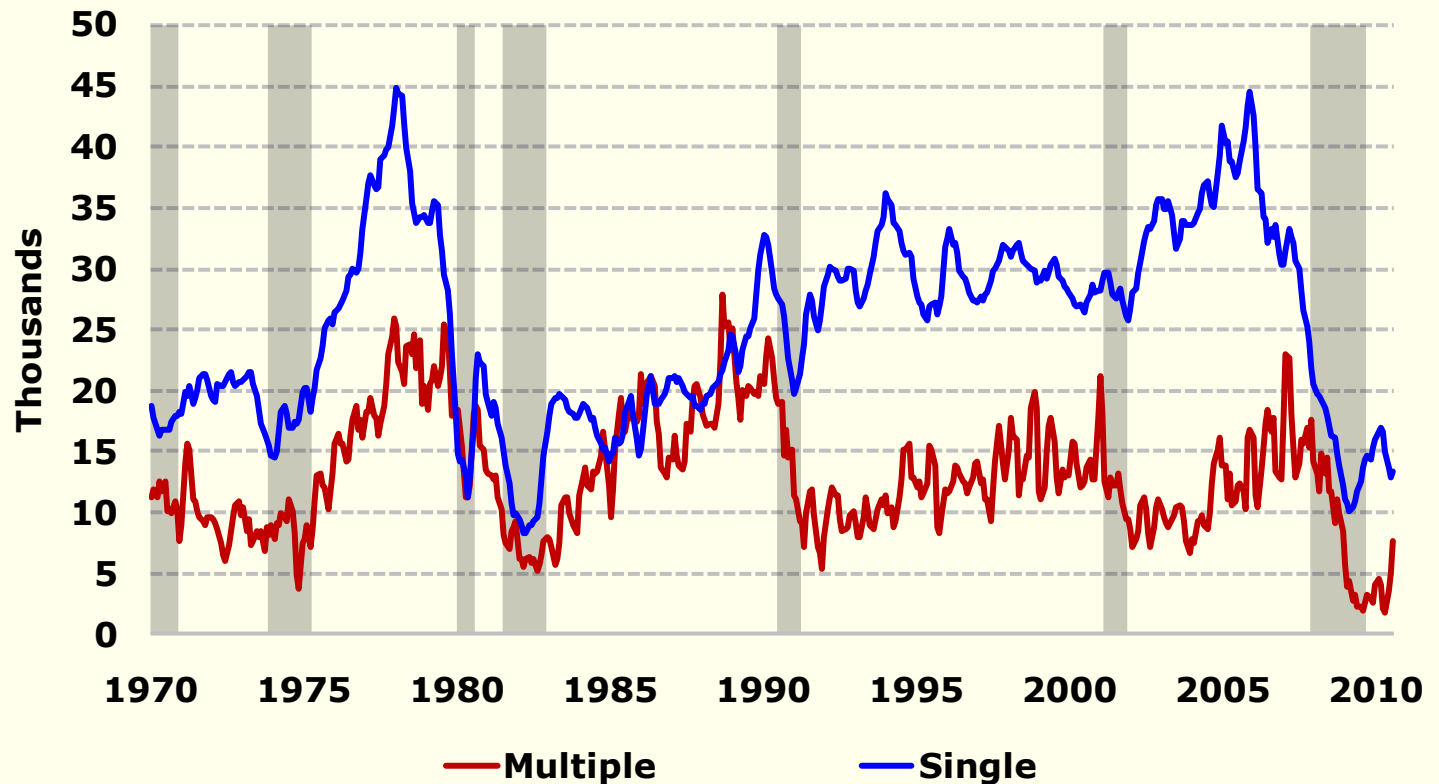
Source: Institute of Supply Management; data through August 2010

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



WA building permits grew briefly from federal tax credits but remain low

Washington Housing Units Authorized by Building Permits, 3MMA, SAAR

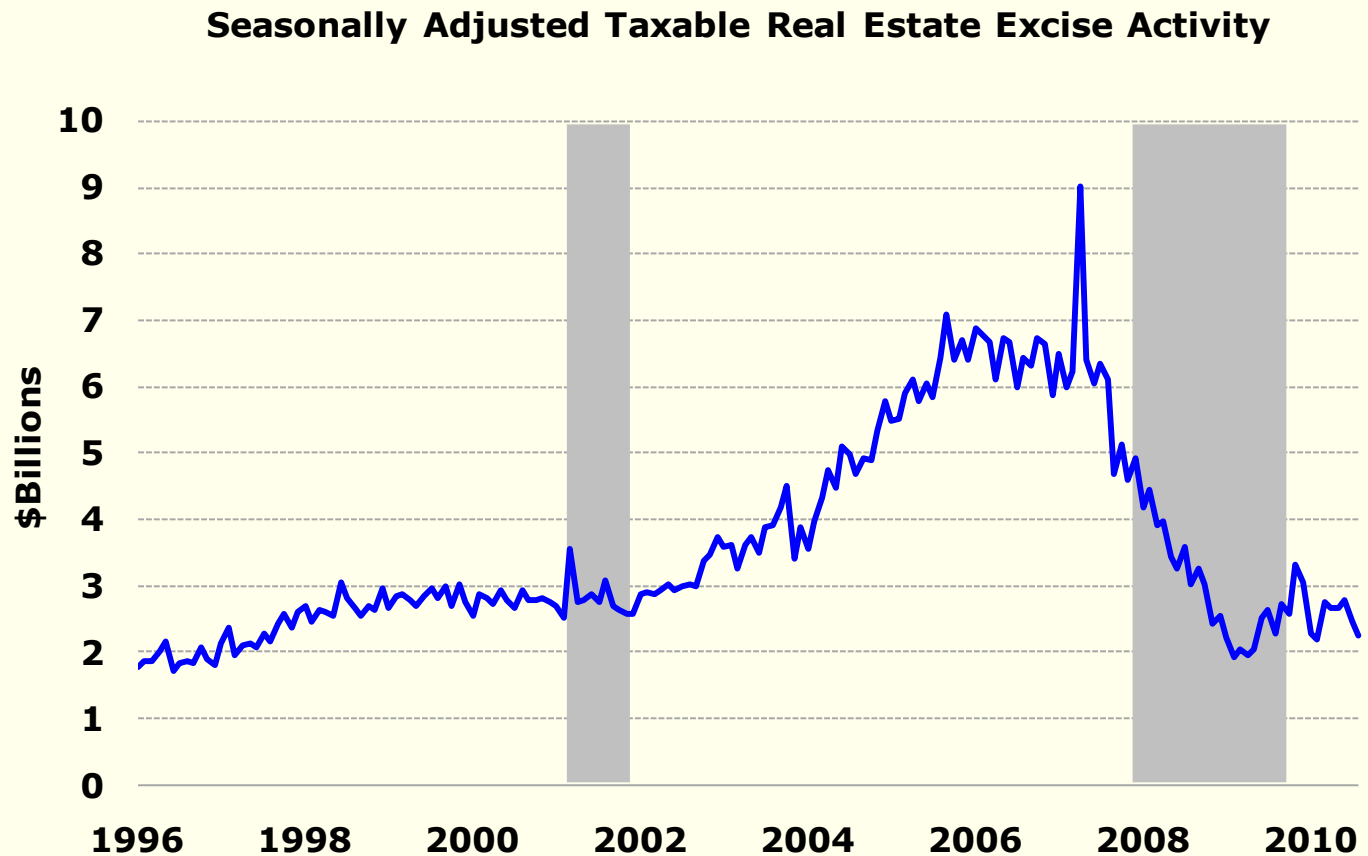


Source: U.S. Census Bureau; data through August 2010

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Real estate activity is on slow upward trend despite credit-related swings

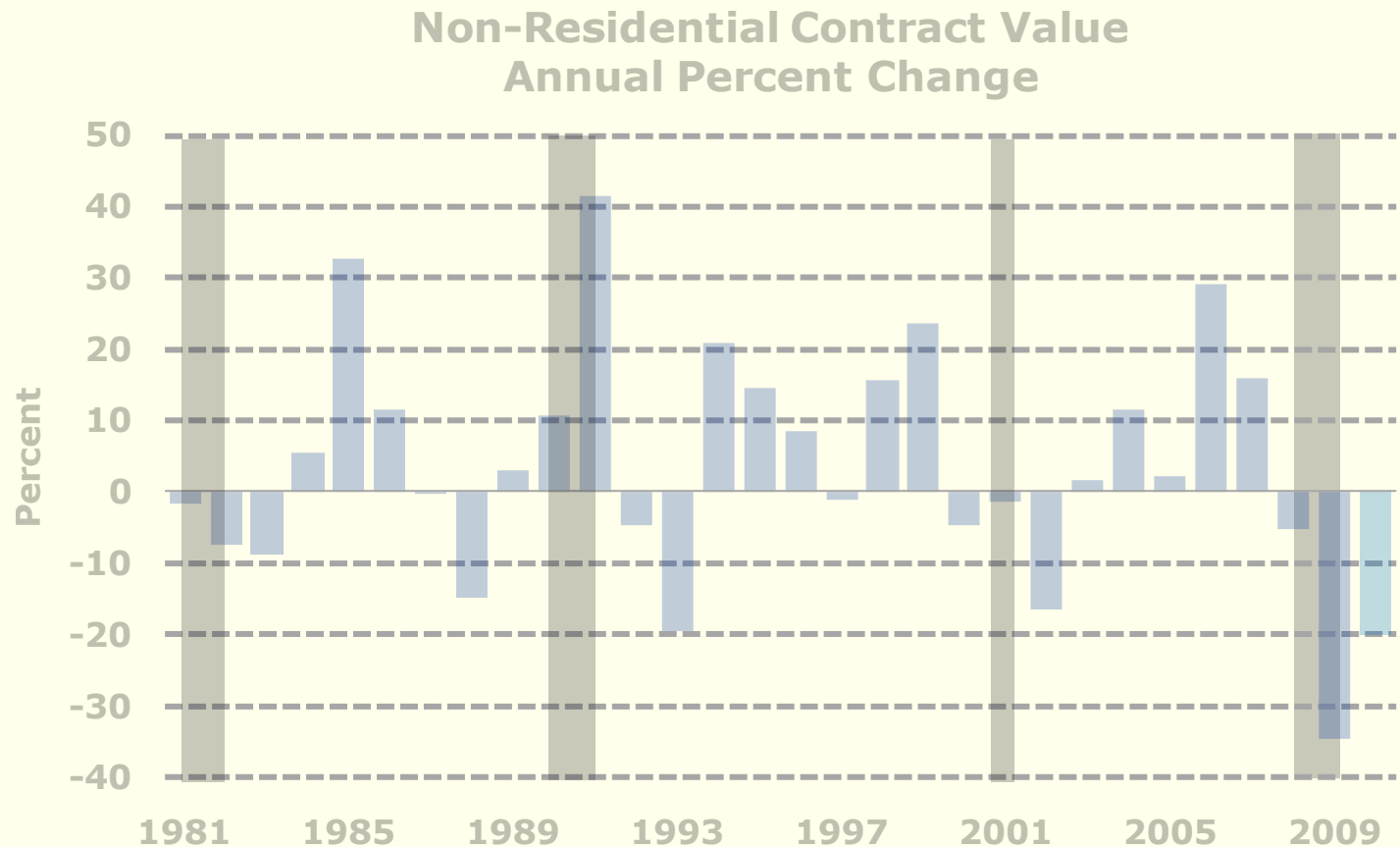


Source: ERFC; monthly data through August 2010

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



This is WA's worst downturn in non-residential construction in 30 years



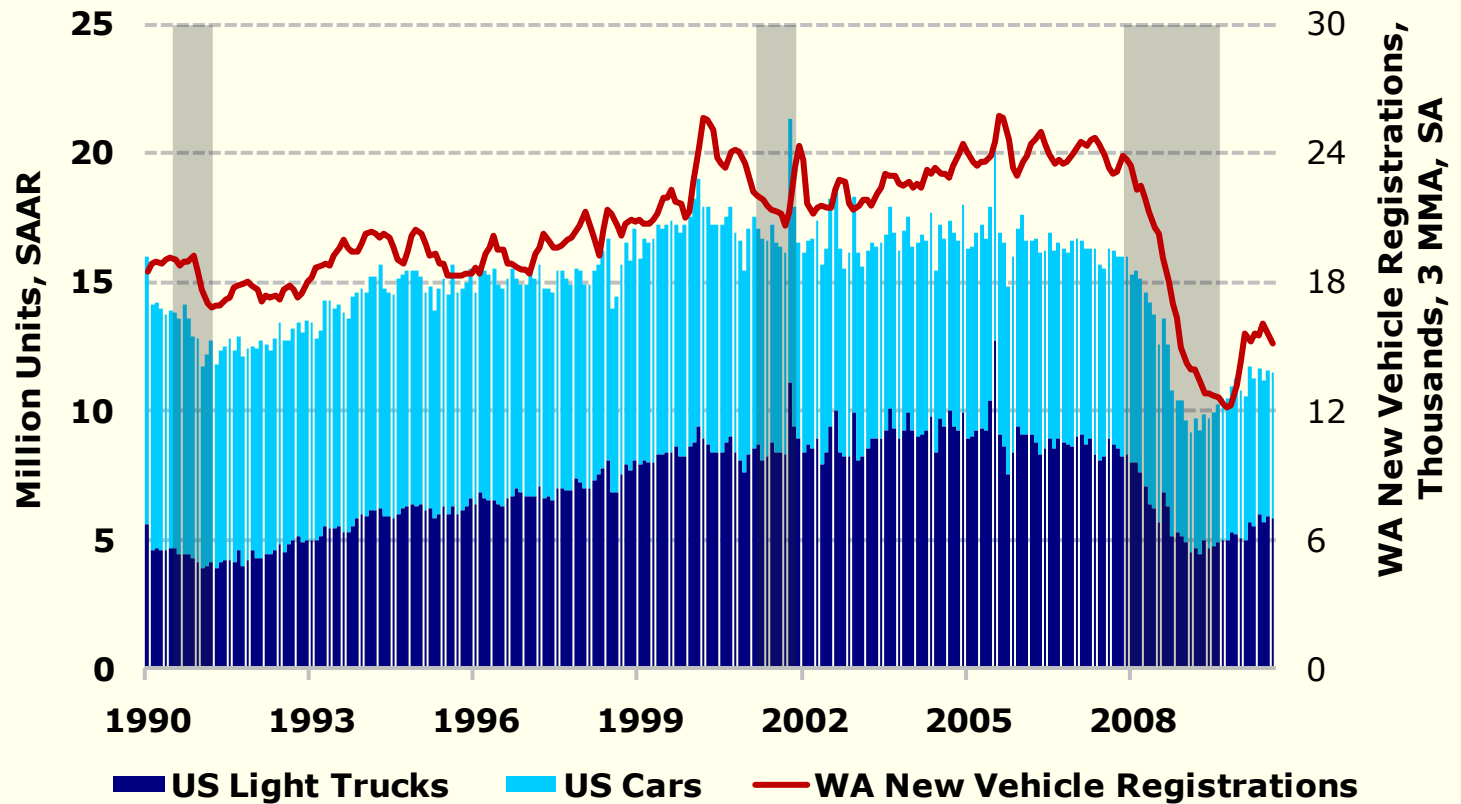
Source: McGraw-Hill Construction, data through August, 2010

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Automotive sales are treading water, after recovering from trough

**Cash for
Clunkers
effect
removed**



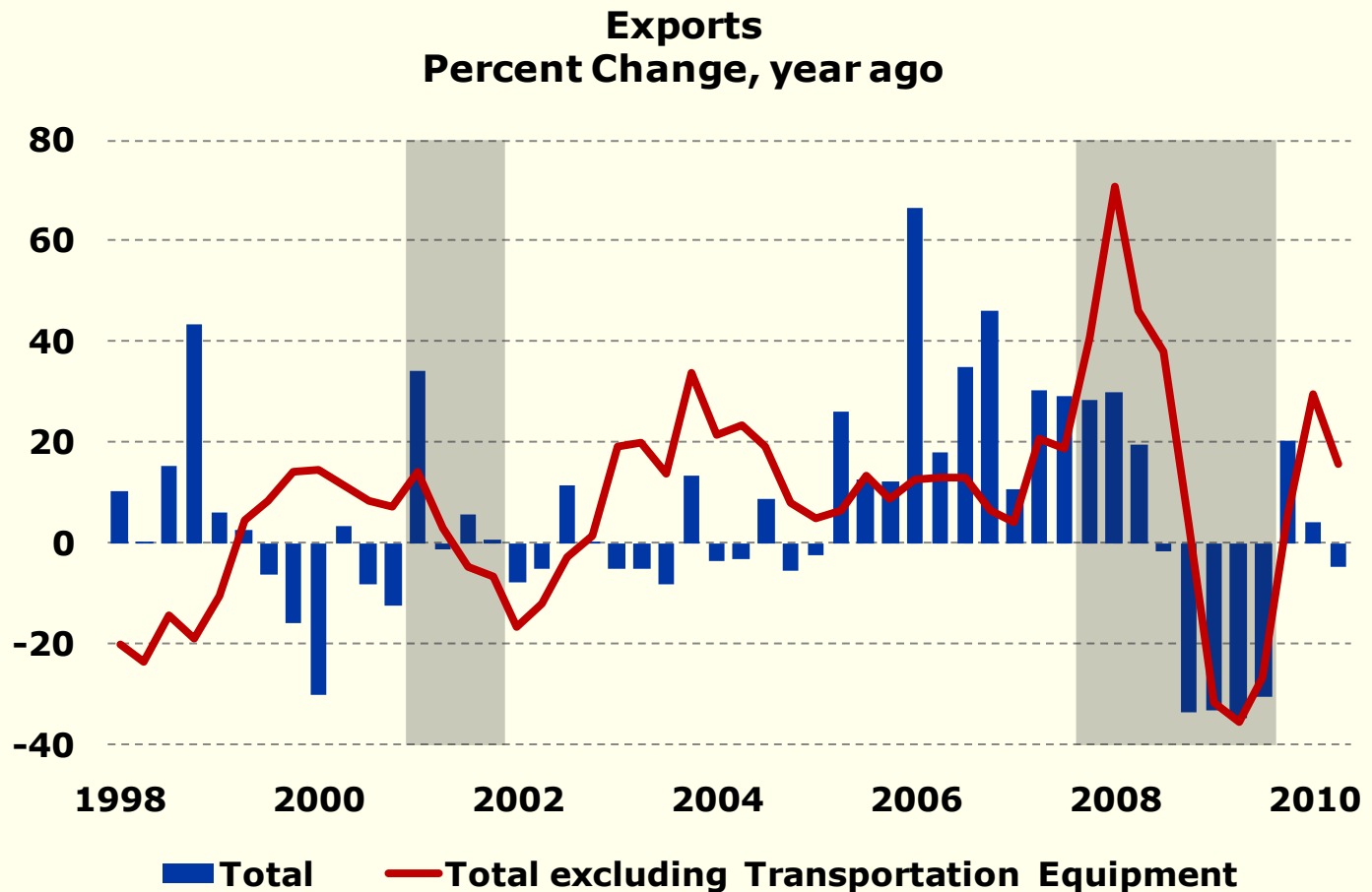
Source: Autodata Corporation, WA DOL; data through August 2010

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



WA export growth is slowing, but will help state outperform in the recovery

Exports excluding transport equipment were up 15.6% y-o-y in Q2



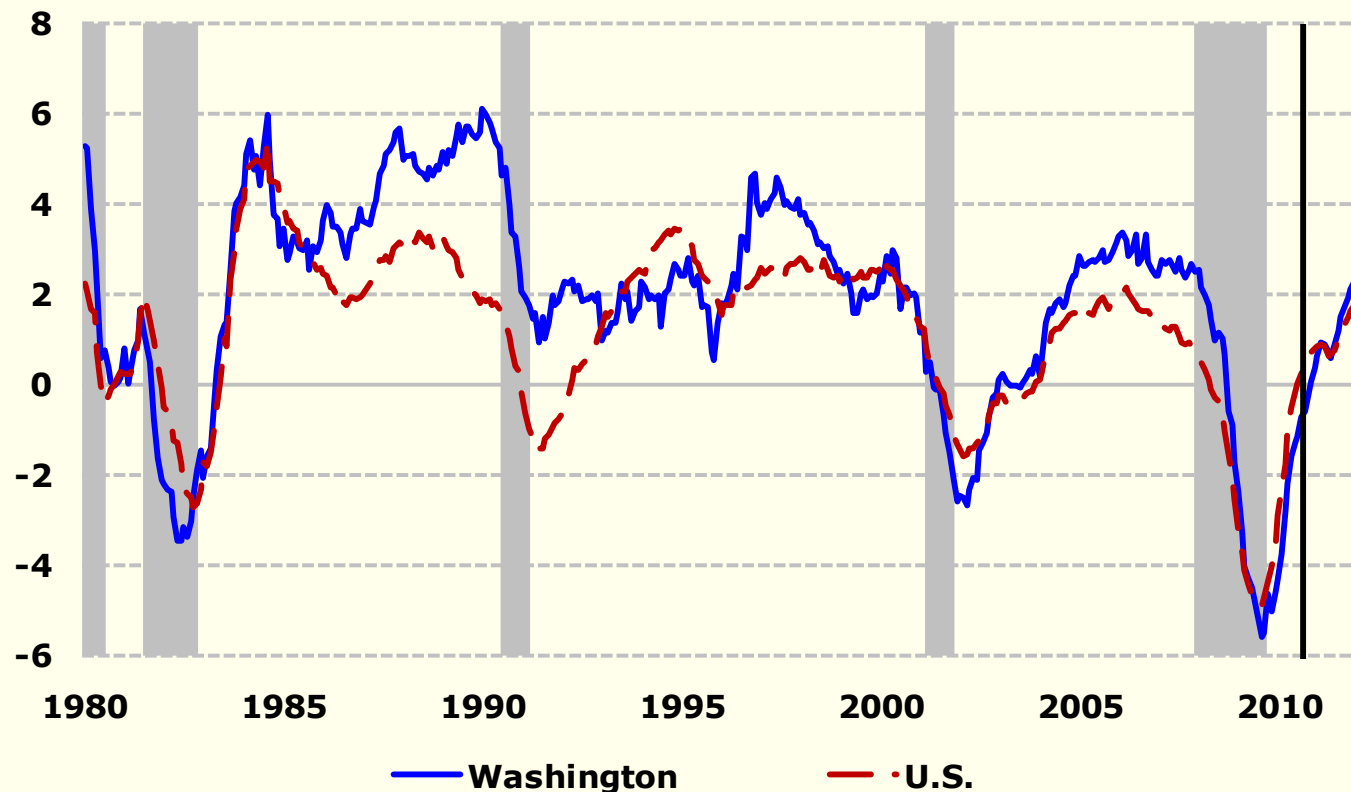
Source: Wiser Trade Data; through 2010 Q2

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



WA employment lagged the nation in the downturn and will recover at about the same rate as the nation

Percent change, year ago



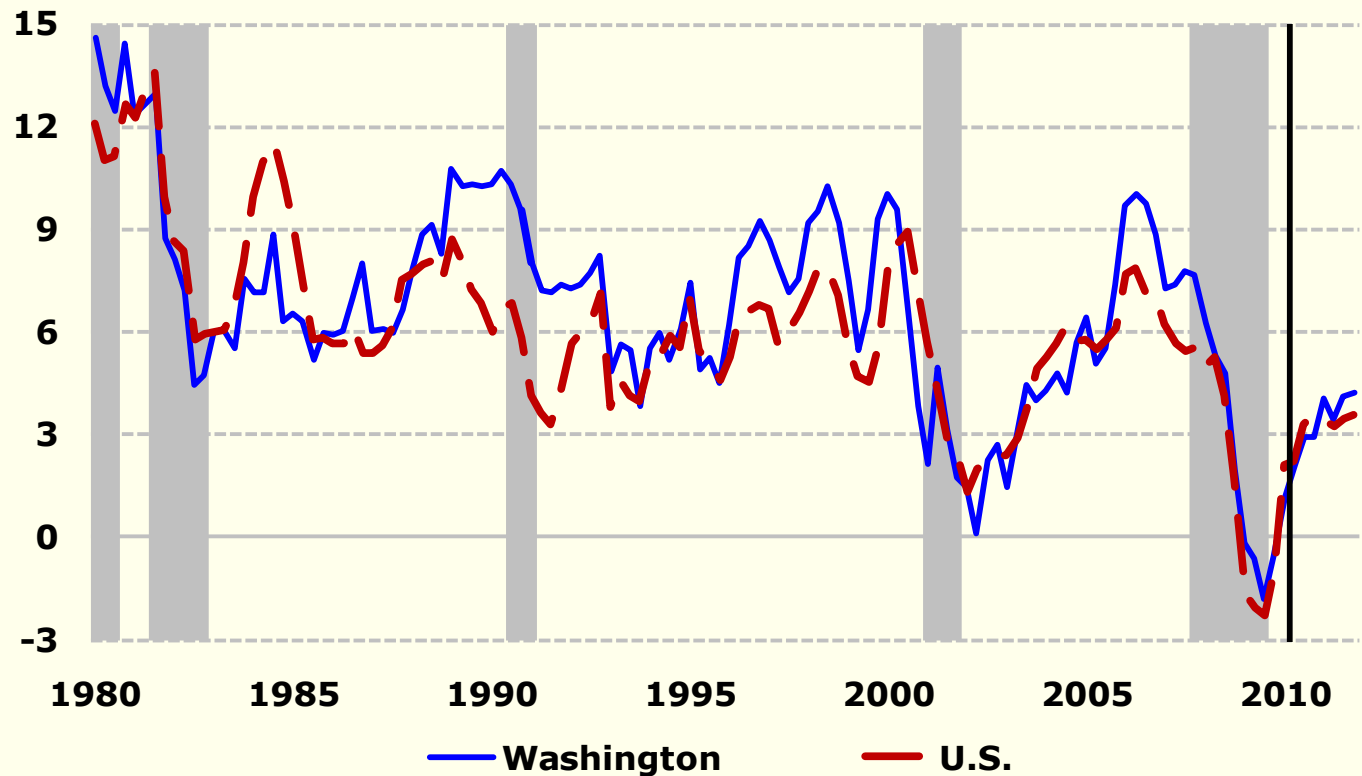
Source: ERFC September 2010 forecast; actual through August 2010

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



The recovery in WA personal income growth, however is expected to be modestly better than the nation's

Percent change, year ago



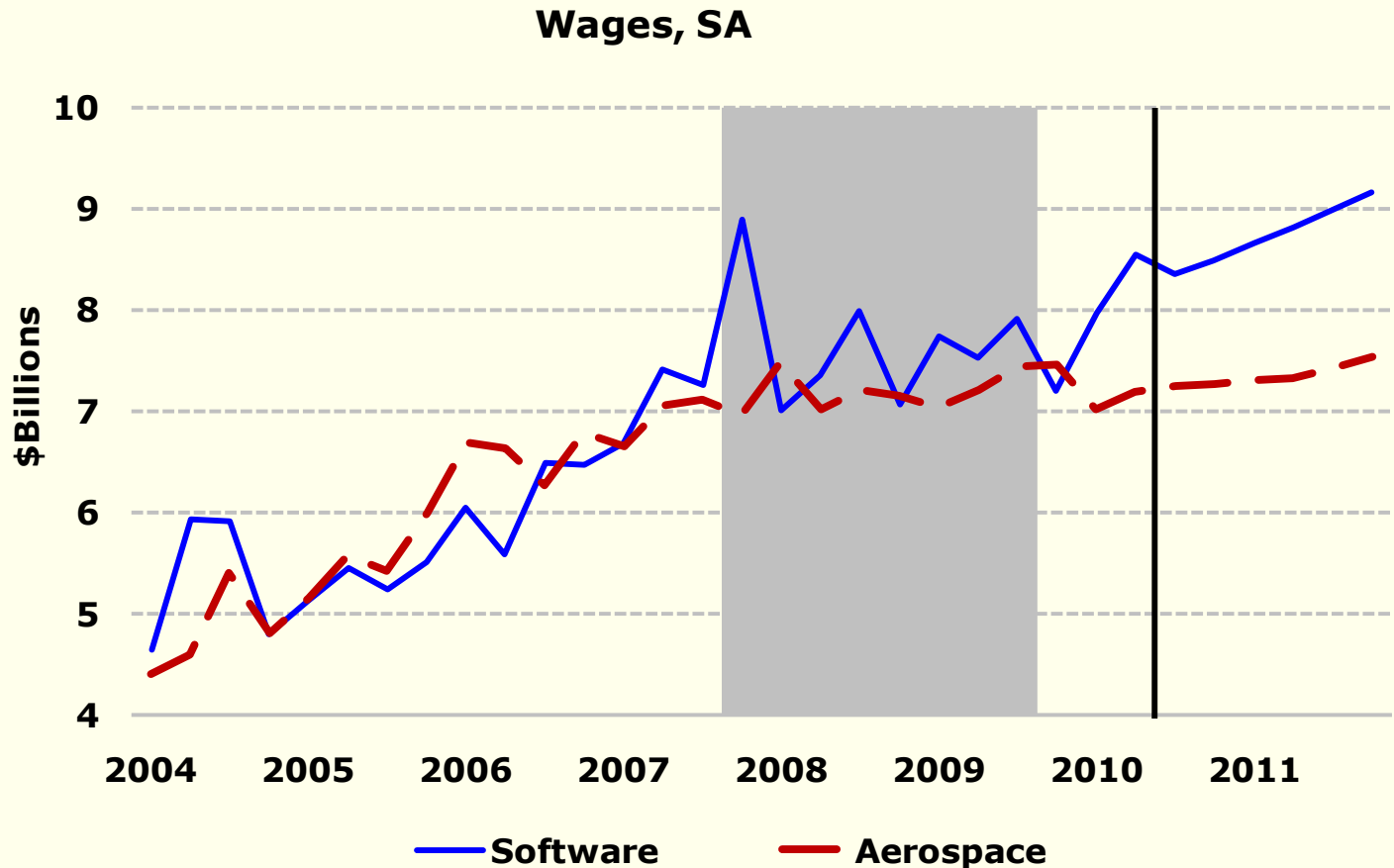
Source: ERFC September 2010 forecast; actual data through 2010Q2

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



WA aerospace and software sectors are expected to add \$4 billion in wages through 2013

Through 2013, WA aerospace and software industries will contribute 14% of wage growth, although they represent just 5% of the workforce



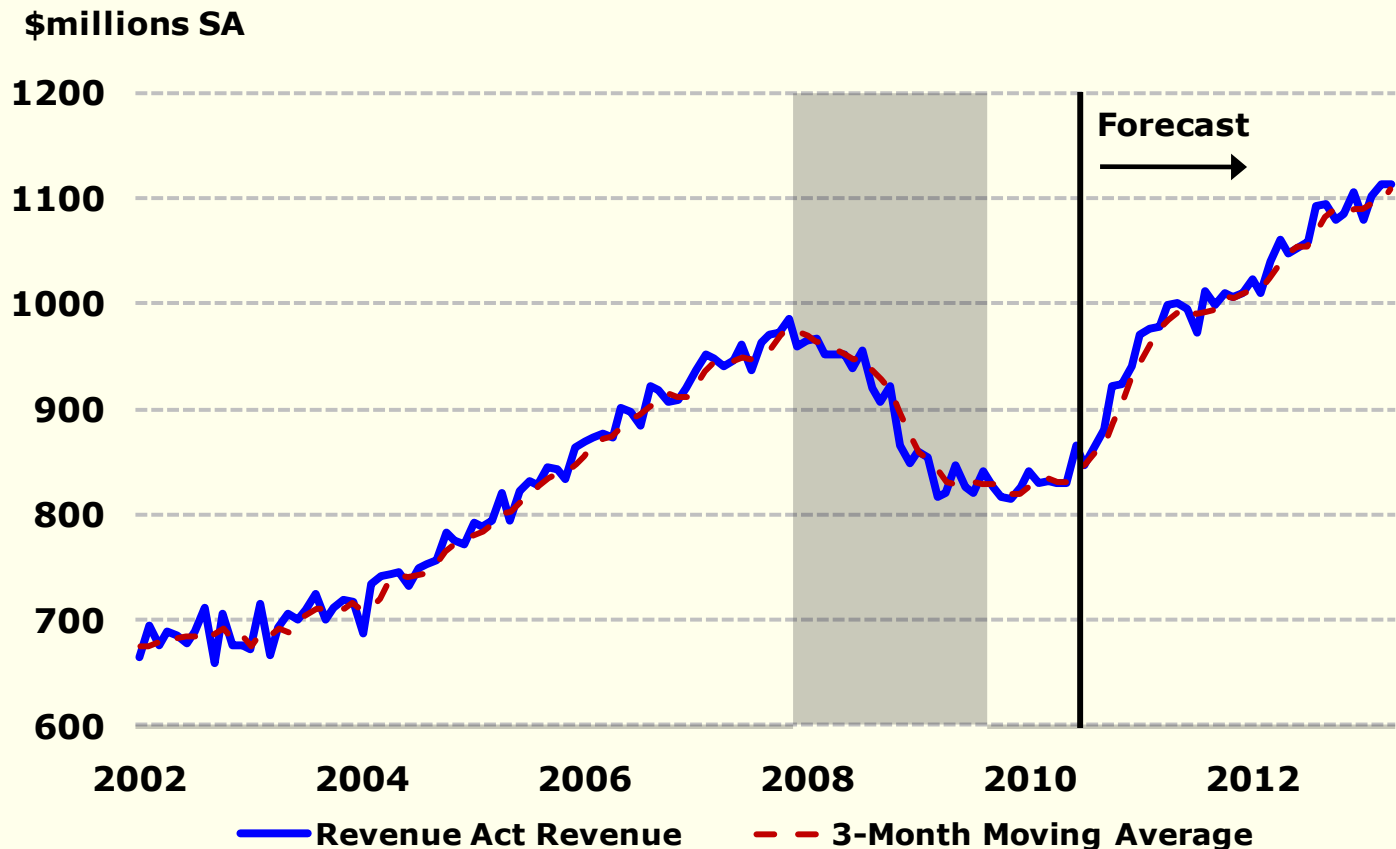
Source: ESD, ERFC September 2010 forecast; actual data through 2010Q2

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Revenue Act collections are now trending upward, and likely to continue

Adjusted receipts were up 3.2% year-over-year in the August 11 - September 10 collection period – for July activity.



* Adjusted for large one-time transactions, current definition of Revenue Act

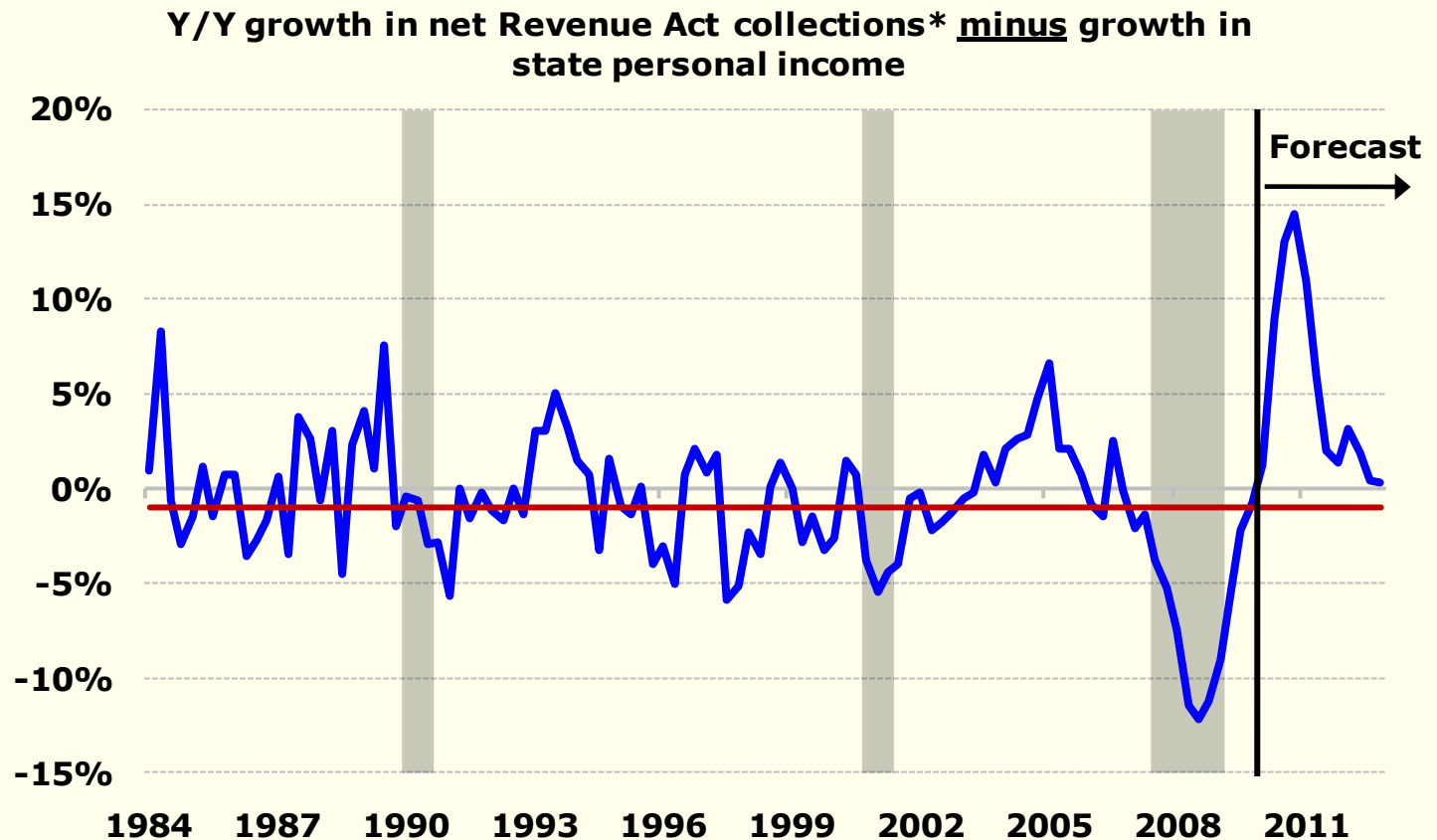
Source: DOR and ERFC; monthly data through July 2010 activity; September 2010 forecast

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Revenue growth relative to income will improve sharply due to 2010 legislation

The growth rate for FY 2011 is accelerated by legislative additions to B&O and retail sales taxes



*Current definition of Revenue Act, includes effects of 2010 legislation

Source: DOR and ERFC; data through 2010Q2 estimated, September 2010 forecast

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

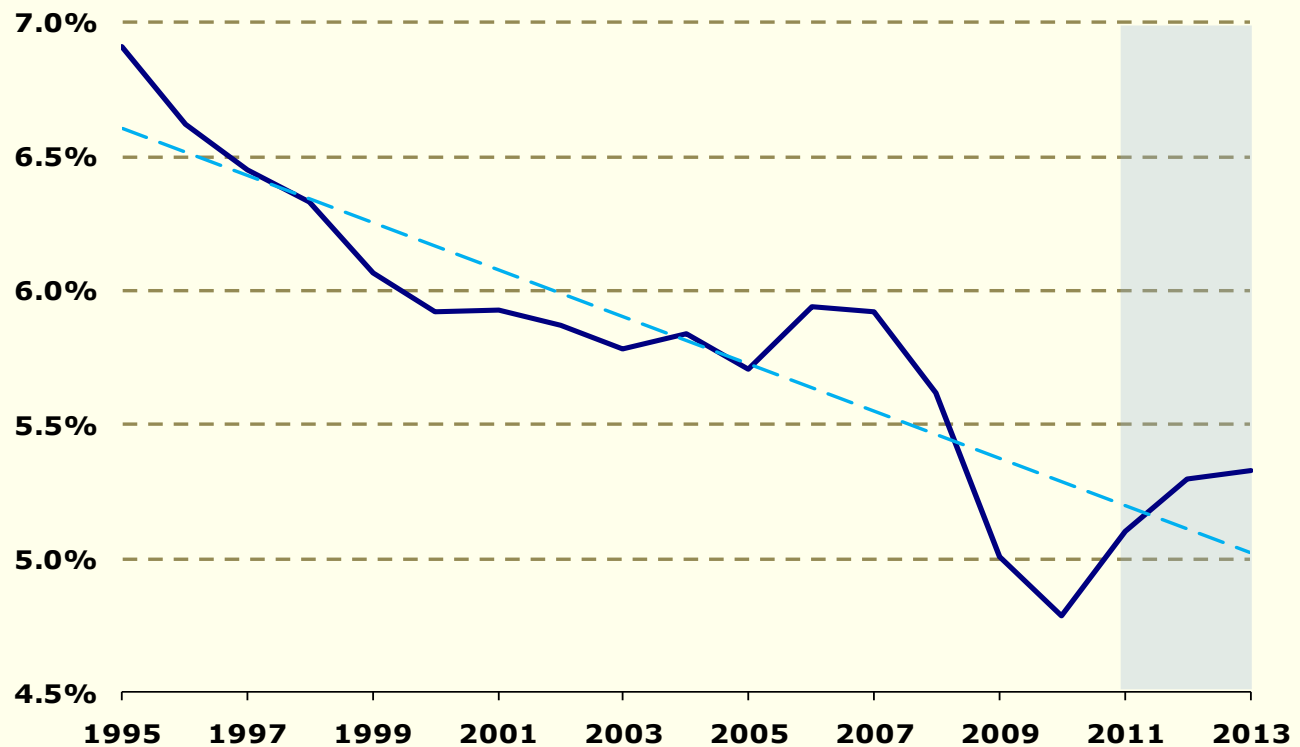


FY 2010 General Fund revenue as a share of state personal income was at its lowest level in recent history

General Fund revenue as a share of personal income has been trending downward for years.

Revenue-enhancing legislation from the 2010 session will increase the General Fund share above the downward trend in FY 2012 and 2013

General Fund-State* Revenue as Percentage of State Personal Income



*Current definition of General Fund-State. Shaded area indicates forecast.

Source: DOR and ERFC; FY data through FY 2010; September 2010 forecast

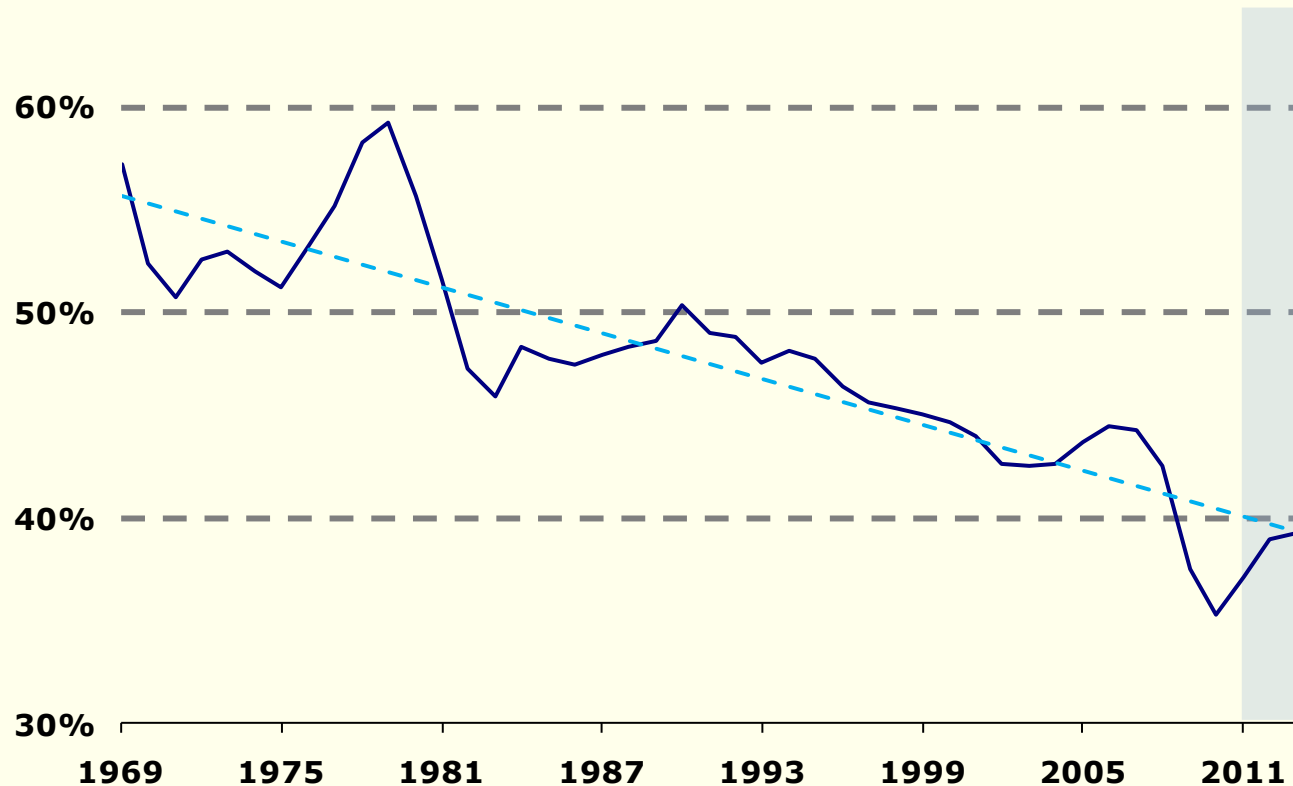
WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Taxable sales make up a declining share of state personal income

The September forecast only brings sales as a percentage of income up to its declining trend line by FY 2013

Taxable Retail Sales as Percentage of State Personal Income



*Past tax base adjusted to represent current base. Shaded area indicates forecast.

Source: DOR and ERFC; FY data through FY 2010; September 2010 forecast

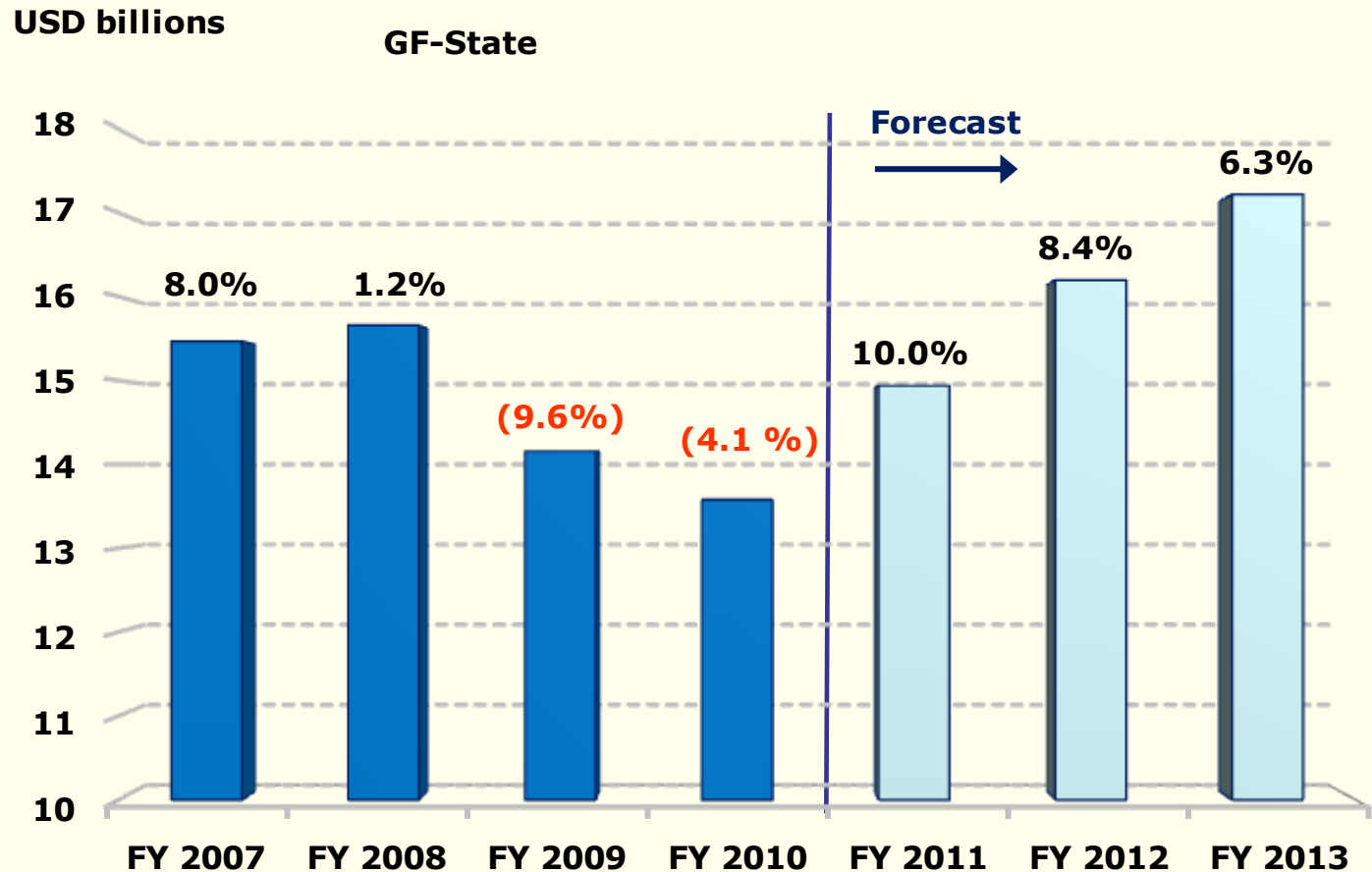
WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



General Fund* forecast by fiscal year

* General Fund & Related Funds for FY 07, 08, and 09

General Fund – new definition, for FY 10-13



Source: ERFC forecast, September 2010; includes impact of legislative changes

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Forecast changes: General Fund State, 2009-2011 Biennium

**June
Forecast:**
\$29,282
million

**USD
millions**

September '10 Forecast

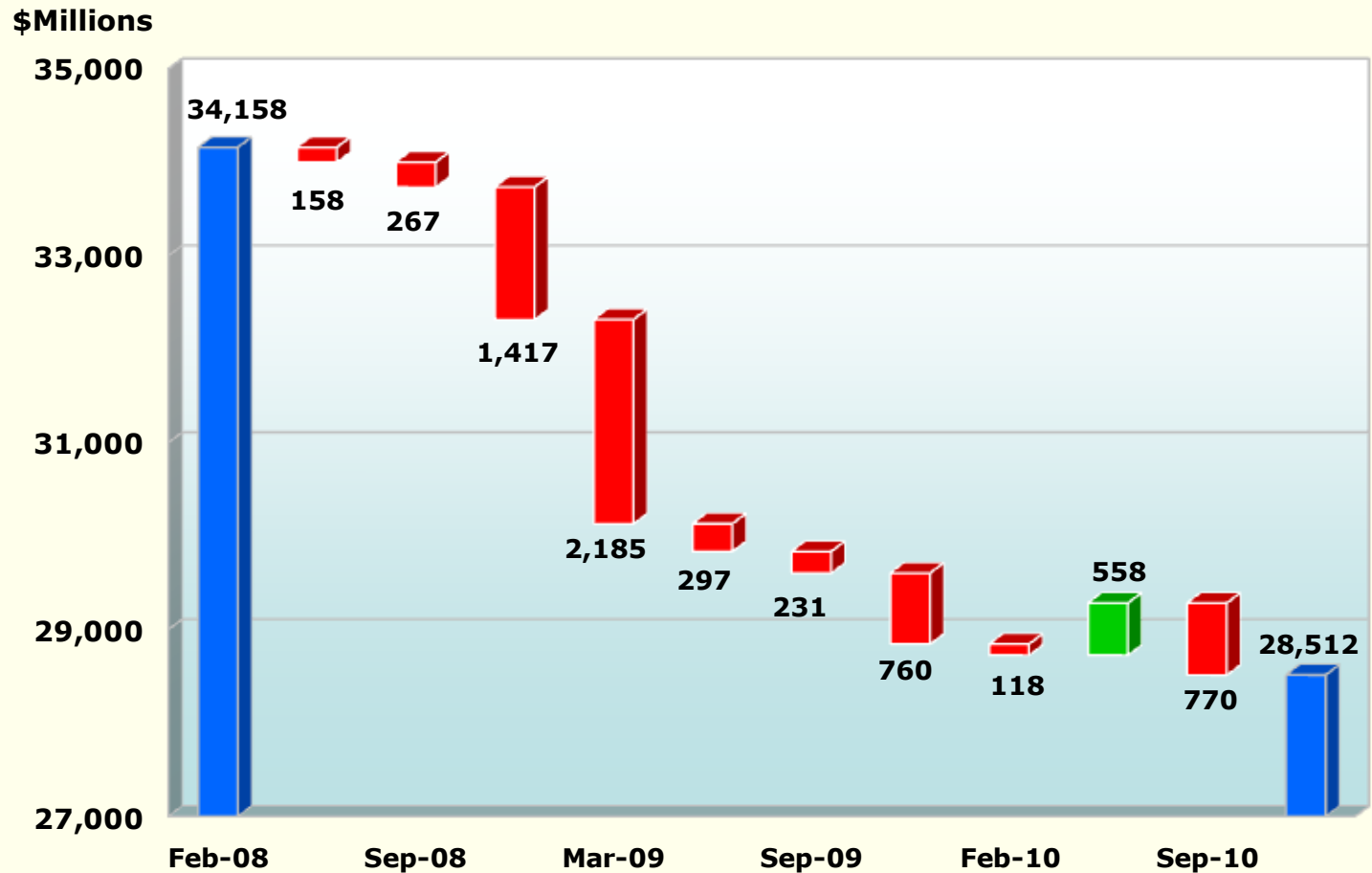
	<u>Collection Experience</u>	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	(\$189)	(\$5)	(\$552)	\$27,055	(\$747)
All other agencies	(\$2)	\$0	(\$21)	\$1,457	(\$23)
Total GF-S	(\$192)	(\$5)	(\$573)	\$28,512	(\$770)

* Detail may not add to total due to rounding



Forecast revisions to the 2009-11 biennium

The September forecast is \$1.62 billion (5.4%) lower than the March 2009 forecast, which was the basis for the initial 2009-11 budget.



Source: ERFC; data through September 2010 forecast. Current definition of General Fund-State

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Forecast changes: General Fund State, 2011-2013 Biennium

USD Millions

**USD
millions**

September '10 Forecast

	<u>June 2010 Forecast</u>	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$32,433	(\$10)	(\$611)	\$31,812	(\$621)
All other agencies	\$1,650	\$0	(\$48)	\$1,602	(\$48)
Total GF-S	\$34,083	(\$10)	(\$659)	\$33,414	(\$669)

* Detail may not add to total due to rounding



2009-11 Biennium alternative forecasts – cash basis

\$Millions	2009-11 Biennium	Difference From the baseline
September 2010 Baseline (65%)	\$28,512	
<u>September 2010 Alternative Forecasts</u>		
Optimistic (10%)	\$28,888	\$375
Pessimistic (25%)	\$28,078	(\$435)
Probability Weighted Average	\$28,441	(\$71)
GCEA*	\$28,575	\$33

*Based on the Governor's Council of Economic Advisors' assumptions

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



2011-13 Biennium alternative forecasts – cash basis

\$Millions	2011-13 Biennium	Difference From the baseline
September 2010 Baseline (90%)	\$33,414	
<u>September 2010 Alternative Forecasts</u>		
Optimistic (5%)	\$35,845	\$2,430
Pessimistic (5%)	\$30,597	(\$2,817)
Probability Weighted Average	\$33,395	(\$19)
GCEA*	\$33,319	(\$95)

*Based on the Governor's Council of Economic Advisors' assumptions

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Conclusion

- The forecast for the 2009-11 Biennium is \$770 million lower and the forecast for the 2011-13 Biennium is \$669 due to a weaker economic outlook
- The economic recovery is going to be a slow painful slog, and it is difficult to see what is likely to cause growth to accelerate
- Both the downside risk to the forecast, as well as the level of uncertainty in the baseline is significantly higher than in June



Questions



**Economic & Revenue Forecast Council
1025 E. Union Avenue, Suite 544
Olympia WA 98504-0912**

**www.erfc.wa.gov
360-570-6100**